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FM AMCONSUL MUNICH
TO RUEHC/SECSTATE WASHDC PRIORITY 3452
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEKJCS/SECDEF WASHDC
RUEADWD/DA WASHINGTON DC
RHEFHLC/DEPT OF HOMELAND SECURITY WASHINGTON DC
RUCPDOG/USDOC WASHDC 0010
RUEHZG/NATO EU COLLECTIVE
RUCNMEU/EU INTEREST COLLECTIVE
RUCNFRG/FRG COLLECTIVE

UNCLAS SECTION 01 OF 03 MUNICH 000558

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E.O. 12958: N/A

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SUBJECT: EADS' EUROCOPTER -- WHAT AIRBUS WOULD LIKE TO BE

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REF: Munich 437

SUMMARY

¶1. (U) Eurocopter, enjoying rising market share, is particularly exuberant over the recent decision by the U.S. Army to purchase up to 352 UH-145 helicopters, the firm's first U.S. defense contract. Eurocopter officials said this would put greater pressure on colleagues at Eurocopter parent EADS to win at least a significant portion of the U.S. Air Force contract to replace the KC-135 tanker fleet, as EADS chases U.S. defense dollars. End summary.

EUROCOPTER -- GENERATING CASH FOR EADS

¶2. (U) Consulate Munich and Embassy Berlin officers met with Dr. Clive Schley, Senior Manager for Commercial Policy, Pricing and Sales Operations for Eurocopter, and toured Eurocopter's headquarters and production facilities in Donauwoerth, north of Augsburg. Eurocopter, a wholly owned subsidiary of EADS, manufactures a broad range of civilian and military helicopters, and was formed from the 1992 merger of the helicopter divisions of Aerospatiale-matra (France) and DaimlerChrysler Aerospace (Germany).

¶3. (U) The company employs some 12,500 persons, including 4,700 in Germany, and 6,200 in France. Eurocopter leads the civilian market, with a 52 percent share of helicopter deliveries worldwide, and has a 25 percent share of the international military market, according to Schley. With revenues of Euro 3.2 billion, Eurocopter accounts for 9 percent of EADS's total revenue. In addition to helicopter production, Eurocopter services and refurbishes helicopters, including U.S.-built Sikorskys flown by the German military. Apart from helicopters, Eurocopter produces the cabin and cargo doors for all Airbus aircraft.

FLYING HIGH WITH THE U.S. ARMY

¶4. (U) While the overall sales picture at Eurocopter is very good, Dr. Schley and his colleagues were clearly most elated by the sales coup of winning a USD 3 billion contract from the U.S. Army for up

to 352 UH-145 light utility helicopters, a military version of the EC145. This is Eurocopter's first U.S. defense contract, although the U.S. Coast Guard had purchased 99 HH-65A "Dauphin" search and rescue helicopters from Eurocopter forerunner Aerospatiale in the 1980s. Schley noted that Eurocopter had learned from several earlier attempts to penetrate the U.S. military market, all of which ended in failure. Schley said partnering with Sikorsky, which will be responsible for contractor logistics support, had been instrumental in winning the contract. In addition to Sikorsky, Eurocopter is also partnering with two other firms on the UH-145: U.S. firm WestWind Technologies, for systems integration, engineering support and program management expertise; and CAE USA, a subsidiary of the Canadian firm CAE, which will supply cockpit procedures trainers.

15. (U) Further enhancing the attractiveness of the Eurocopter bid was the company's willingness to locate production at American Eurocopter's Columbus, Mississippi, facility. Production of the first several aircraft will take place at the Donauwoerth assembly facility, then shift to Mississippi. Schley proudly showed off the first UH-145 being assembled for the Army, as workers installed its avionics systems. Throughout the assembly area were large posters showing the UH-145 in U.S. Army green performing various missions, all with the English caption "Made for the Mission," and sub-captions including "Best value for America," "We're on board," and "Lifting America higher." Examples of these can be found on the web-site created expressly to highlight the UH-145 contract: "www.uh-145.com".

PATROLLING U.S. BORDERS

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16. (U) In addition to the Army contract, the U.S. Department of Homeland Security has ordered 15 EC120 single-engine helicopters from Eurocopter, to be used for front-line operations by the U.S. Customs and Border Protection agency. The EC120s will support Customs and Border Protection missions in low-altitude surveillance and security patrol of the border. The first EC120 was delivered to Customs and Border Protection during a July 21 ceremony at Eurocopter's Mississippi facility.

A MODEL FOR EADS' BID TO SUPPLY TANKERS TO AIR FORCE?

17. (SBU) The Army contract was all the more important because of the recent well-publicized turmoil at EADS/Airbus (reftel). Schley noted that in addition to improving the standing of Eurocopter within the EADS consortium, Eurocopter's success at breaking into the U.S. defense market would increase the pressure on his colleagues at EADS to win all or part of the U.S. Air Force contract, expected to be awarded in late 2007, for aerial refueling tankers to replace the aging KC-135 fleet. Taking a page from the Eurocopter marriage with Sikorsky, EADS has partnered with Northrop Grumman to produce a bid to build the "KC-30" tanker, based on the airframe of the Airbus A330 airliner. According to EADS, the joint effort would create more than 1,000 jobs in the United States, with U.S. content in the KC-30 expected to be over 50 percent. To demonstrate its readiness to the U.S. Air Force, EADS announced in June 2005 that it would build an assembly line in Mobile, Alabama, to outfit A330s as tankers. Boeing, EADS' sole competitor for the tanker contract, is offering a tanker version of its 767 airliner to the Air Force.

IN EVERY AIRBUS THERE IS A LITTLE EUROCOPTER

18. (U) While rotary-wing aircraft are Eurocopter's bread and butter, EADS sister company Airbus has also awarded Eurocopter the contract to manufacture all cabin and cargo doors for its entire model range, including the new A380. Schley noted that this experience working with Airbus could pay dividends, given that

Eurocopter's extensive experience working with composite construction would put the firm in a competitive position to provide assemblies for future Airbus aircraft, particularly the A350, intended to compete directly with the largely composite Boeing 787 Dreamliner.

LOOKING TO UNTAPPED OPPORTUNITIES

¶9. (SBU) Schley told us that Eurocopter was planning to set up subsidiaries in India and China. The company was aware of the risk of intellectual property theft by the Chinese, but the Chinese market was just too big to cede to the competition. The challenge would be to maintain a level of innovation that would keep Eurocopter several years ahead of the ability of the Chinese to copy it.

FLYING UNDER THE RADAR

¶10. (SBU) Schley noted that Eurocopter was in the enviable position, vis-à-vis Airbus, of not being as visible, and thus not subject to the same level of interference by the French government. While Airbus was suffering under the heavy, and even damaging, hand of the French government and former French EADS co-CEO Forgeard (reftel), Eurocopter was quietly racking up sales and increasing its market share. Schley seemed content to leave the burden of being a high-profile source of national pride -- particularly French pride -- to sister Airbus. Schley observed that Eurocopter, being smaller and more autonomous than Airbus, had more flexibility in adjusting to market demand than its sister company. He said, for instance, that Eurocopter emphasized building products to customer specifications, as opposed to offering a line of standard products with little room for modification.

COMMENT

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¶11. (SBU) In talking with German EADS contacts, one cannot help but come away with the "good news/bad news" current running through the company -- and clearly Eurocopter is the good news at present. The U.S. Army contract represents much more for EADS than a large order for aircraft. With European defense spending being miniscule compared with the U.S. defense budget, and little reason to believe spending will increase in the future, EADS has firmly fixed its sights across the Atlantic with the intent of becoming an indispensable defense contractor to Uncle Sam.

¶12. (U) This report has been coordinated with Embassy Berlin.

¶13. (U) Previous reporting from Munich is available on our SIPRNET website at www.state.sgov.gov/p/eur/munich/ .

NELSON